California Redevelopment Agency Housing Activities During Fiscal Year 2004/2005

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FOREWORD

This is the 21st year the State Department of Housing and Community Development (Department) has published the annual Redevelopment report describing redevelopment agencies' use of the Low and Moderate Income Housing Fund (Low-Mod Fund). Redevelopment agencies are required to annually report on their Low-Mod Funds pursuant to Health and Safety Code Section 33080 et seq. Of California's 535 local governments, 422 (79 percent) have a redevelopment agency of which 392 were active over FY 2004/2005 based on reporting housing fund deposits and/or expenditures.

California's Affordable Housing Crisis

Housing is not only a significant component of the economy, it is pivotal to California's economic recovery and long-term economic competitiveness. Employers consistently cite the high cost of housing among the top reasons they cannot locate, or remain in California. The cost of housing in California is cited in major economic studies as a major detractor for the State's business climate. California's continuing housing shortage has resulted in unprecedented high housing costs and low homeownership rates, especially when compared to the rest of the nation.

The housing challenge is first and foremost an availability problem. Housing production has not kept pace with the State's housing needs, particularly in the coastal metropolitan areas, leading to a "housing crisis"[1] for California. During the 1980s, 2.1 million units were built compared to only 1.1 million units in the 1990s, and while construction rates have picked up in the last few years, California continues to experience a supply shortfall. While the average annual need is projected to approximate 220,000 housing units, construction has lagged substantively below the need. Although 2004 saw the highest residential construction since the 1980s with nearly 213,000 new homes and apartments permitted, California still fell short of the need. In 2005, California continued to exceed the 200,000 unit mark, with approximately 208,000 units permitted; however, projections are that the number of housing units permitted will decline again in the next few years. Additionally, the State Department of Finance estimates that California's population will continue to gain approximately 600,000 people annually over the next decade. This is the equivalent of adding a city the size of Long Beach every year for the next 10 years. This means California's need for housing for its workers and families will continue while production levels decline, leaving the state with a growing affordability and supply gap.

The combination of housing shortfalls and low mortgage rates has resulted in skyrocketing housing costs. The median price of a detached home ($551,300 as reported by California Association of Realtors for January 2006) increased 13.7 percent from 2005. These high housing costs leave only 14 percent of California households able to afford the median priced single-family home whereas, nationwide, 49 percent of households could afford homeownership. California's homeownership rate is the second lowest in the country and is a full 10 percentage points lower than the national rate.

For renters the situation is also dire. Only one-fourth of all building permits have been for multifamily housing; a decline of nearly 70 percent since the levels of the mid-1980s. For renters, the continued low production of multifamily units has resulted in steep rent increases and significant housing overpayment. Census 2000 data indicates nearly 40 percent of all renters spend more than 30 percent of their income on rent and approximately 25 percent spend more than 50 percent of income on rent. California families earning minimum wage are particularly burdened by high rent because of an inadequate supply of affordable rental housing. For example, in 2005 California renters would have to earn at least $22.09[i] an hour--more than three times the minimum wage--to afford the average rent for a two-bedroom apartment. In other words, many of California's workers in a variety of occupations--e.g., kindergarten teachers, office and retail clerks, farmworkers, and nurses' aides--have difficulty affording basic shelter. As a result, workers have to move farther and farther away from job centers in search of affordable housing, creating inefficient land use patterns and increased congestion that threaten the State's natural and agricultural resources and Californians' qualify of life.

Role of Redevelopment Agencies

Redevelopment is one of California's most effective tools to revitalize deteriorated and blighted areas plagued by a combination of social, physical, environmental and economic conditions, which act as barriers to new investment by private enterprise. Redevelopment encourages new development, creates jobs and generates tax revenues in declining urbanized areas by developing partnerships between local governments and private entities. Redevelopment law was first established in 1945 to provide local governments the authority and funding mechanism (referred to as property tax increment financing) to improve blighted areas. A redevelopment agency is authorized to keep the property tax increment revenues resulting from increased property values within a redevelopment project area. When a redevelopment project area is established, the agency "freezes" the amount of property tax revenues that other local governments receive from property in that area. In future years, as the project area's assessed valuation grows, the resulting property tax revenues (tax increment) are kept for the redevelopment agency instead of going to the other government entities (local governments, schools and special districts). Property tax increment financing allows agencies to issue bonds and repay debt from receipt of all future "tax increments." Agencies receive property tax increment over the life of a project area or until debt is repaid which, by law, must occur within 45 years from adoption of the redevelopment plan.

In 1976, the law was amended to require agencies to annually set-aside at least 20 percent of property tax increment into a separate Low and Moderate Income Housing Fund (Low-Mod Fund) to address the community's affordable housing needs. Agency deposits to the Low-Mod Fund are now more than $1 billion per year.

Redevelopment agencies, working together with other public agencies and private industry, play a vital role in addressing California's housing supply and affordability crisis by financially assisting in the development, improvement or preservation of housing for low and moderate-income households. Agencies can use their powers to tackle both the land use and the financing challenges of California's housing supply crisis. Agencies can promote infill development close to job centers and, from their various revenue sources, including the Low and Moderate Income Housing Fund (Low-Mod Fund), finance and subsidize the development of housing that lower income workers and families can afford. The Low-Mod Fund represents the largest single source of funds that are steadily available to increase, improve, and preserve the supply of affordable housing.

Statutory Reporting Requirements

Redevelopment law (Health and Safety Code [H&SC], Section 33080) requires agencies to report Low-Mod Fund financial data (deposits, revenues, expenditures, and balances), and housing activity data to the Department no later than six months after the end of each fiscal year. Agencies must report, by project area, specified data on households assisted such as the number of elderly and non-elderly as well as the income level of households assisted. Pursuant to H&SC Section 33080.6, the Department is required to compile agency data and publish an annual report on redevelopment agencies' housing activities.

Data Compilation and Reporting of Agencies' Housing Funds and Activities

The Department continues to enhance its electronic on-line reporting system to facilitate agencies' efforts to accurately report data. In an effort to encourage on-line reporting, the Department annually conducts two training sessions at California Redevelopment Association conferences, and provides three to four interactive on-line training sessions which are sponsored by the California Redevelopment Association. The on-line system allows the Department to identify and, in coordination with agencies, make corrections to more accurately report financial data and housing assistance efforts. This reporting year, 236 agencies used the Department's on-line system to electronically file reports. Although the Department has continued to make improvements to the system to encourage broader use, there was only a slight increase in the number of agencies who filed electronically in FY 04/05.

Even though reporting issues concerning accuracy, consistency, and timeliness have improved, due to use of the on-line system, some problems continue to impact the accuracy of the annual report, such as financial data reported to the Department that does not agree with audited financial statements or similar data reported to the State Controller. Accurate reporting is important to identify and analyze important trends regarding use of housing funds, and the overall effectiveness of redevelopment law and agency activities. Approximately thirty-five agencies had to be contacted to correct reporting errors. The Department will continue to improve its electronic reporting system and encourage agencies to report on-line for easier, faster, and more accurate reporting.

[1/] Out of Reach 2005, Wardrip, Keith [et al.] / National Low Income Housing Coalition -- Washington, DC: NLIHC, 2005.

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Orange County Community Indicators Project, **(***The cost of housing was the primary negative factor in the Orange County Executive Survey of 2004*), Santa Ana, CA.

HIGHLIGHTS OF CALIFORNIA REDEVELOPMENT AGENCIES' HOUSING FUNDS AND ACTIVITIES

Fiscal Year 2004/2005

The Department has compiled data reported by redevelopment agencies to report comprehensive and objective information concerning redevelopment agencies' use of their Low and Moderate Income Housing Fund (Low-Mod Fund). This information can be used to determine compliance with provisions of redevelopment law (Health and Safety Code, Section 33000, et seq.), evaluate the effectiveness of agencies' use of the Low-Mod Fund, and assess the extent to which agencies' programs, projects, and assistance help to increase, improve, and preserve the supply of low and moderate-income housing.

In comparison to last year, agencies reported a 5 percent increase in annual deposits of $1.2 billion to the Low-Mod Fund and a 14 percent increase in expenditures of $963 million. Agencies reported total fund equity (net worth) of more than $3 billion.

Based on information agencies reported for FY 2004/2005, this report describes certain trends regarding the amount and use of agencies' funds and the results of their housing activities. Although incidences of incomplete or inaccurate reporting are occurring less frequently, some reporting inaccuracies continue to hinder efforts to evaluate agencies' funds, programs, and projects for compliance with redevelopment law. Financial and housing activity data are displayed in Exhibits A-M with related details summarized in the beginning of each exhibit.

Highlights of redevelopment agencies' use of funds for housing activities and assistance are described below. A full summarization of agency data is included in the body of the report.

Highlights – Housing Fund

- *Agencies deposited $1.2 billion to the housing fund, an increase of $62 million (5 percent) compared to the previous year.*
- *Agencies spent $963 million of housing funds, $117 million (14 percent) more than last year.*
- *Total fund equity or net worth exceeded $3 billion at the end of FY 2004/2005.*

- *The statewide unencumbered balance reported at year end was $1.7 billion which represents the amount available for future housing activities. Of this unencumbered amount, agencies reported $599 million as designated for use in the near term, leaving more than $1 billion as undesignated and immediately available for housing activities. Most agencies (342) reported an unencumbered balance. Of those, 69 percent (236) reported having an unencumbered balance over $1 million, whereas last year 216 agencies had an unencumbered balance greater than $1 million. Of this year's 236 agencies:*
    - *151 reported an unencumbered balance between $1 and $5 million;*
    - *46 reported between $5 and $10 million; and*
    - *39 ended the year with an unencumbered balance of more than $10 million. The sum of the unencumbered balances for these agencies exceeds $896 million and represents almost 54 percent of the statewide unencumbered balance of $1.7 billion.*

- *Four agencies exempted $14.7 million of property tax increment from deposit to their housing fund, a slight decrease from $14.9 million exempted last year. Special legislation allows one agency to exempt $14.4 million, the majority of total exemptions, upon transferring tax increment to the Los Angeles County Housing Authority.*

- *Seven agencies deferred $2.8 million of property tax increment that must be repaid to the Low-Mod Fund. Nineteen agencies repaid $4.5 million for deferrals taken in previous years. The accumulated deferral balance owed the housing fund represents $174 million.*

- *Fifty-two agencies reported having Excess Surplus totaling $70 million, considerably less than the reported $115 million in FY 2003/2004 by 51 agencies. Although Excess Surplus has been reported in prior years, to date no penalties have been incurred.*

Highlights – Housing Activities

- *Agencies assisted 20,493 households. Assistance to elderly households totaled 7,185 whereas non-elderly households were 13,308. Agencies used their Low-Mod Fund to assist households with the following income levels: 9,078 very-low (44 percent); 6,069 low (30 percent), and 1,944 moderate (9 percent). The remaining units (3,402) were assisted with funds other than Low-Mod Funds.*

- *Agencies reported assisting 7,815 units that meet the "inclusionary" requirement for units to remain affordable beyond 45 years. These units consisted of 5,951 reported as new construction, 1,257 substantially rehabilitated and 607 multifamily for which long term affordability covenants were purchased.*

- *Low-Mod funds assisted in the replacement of 937 units that were counted toward agencies' obligations to replace units destroyed over the last four years.*

- *Agencies reported activities (non-inclusionary or non-replacement activities) assisting in constructing 2,770 units; rehabilitating 3,353; subsidizing 898 households and providing several other kinds of assistance benefiting an additional 4,720 households.*

- *Agencies (41) reported 400 dwelling units were destroyed in FY 2004/2005 that need to be replaced. Over the reporting year, 4 agencies displaced a total of 51 households in the current year, and 35 agencies estimate 695 households will be displaced next year.*

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Redevelopment Agency Activities – Fiscal Year 2004-2005

This report describes agencies' Low and Moderate Income Housing Fund (Low-Mod Fund) data required to be reported each fiscal year. The *Housing Funds* section reports Low-Mod Fund revenues and expenditures. The *Housing Activities* section reports on the various housing fund activities including data such as the number of low- and moderate-income households assisted and the number of elderly and non-elderly households assisted. Exhibit data reflects information reported by most, but not all 422 redevelopment agencies. Agencies not appearing in particular exhibits may not have any activity to report or may have been inactive over the reporting year. Inactive agencies are agencies that did not report any revenues or expenditures over Fiscal Year 2004-2005.

Agencies have the option of reporting either electronically or by completing paper forms (Schedules A through E are shown in Appendix 2). All redevelopment agencies are required to annually report Low-Mod Fund information to the Department of Housing and Community Development (Department) within six months after the end of their fiscal year.

HOUSING FUNDS

This section reports on the statewide sources and uses of agencies' Low-Mod Funds. Amounts specific to redevelopment project areas are reported in Exhibits A-1 and A-2. Redevelopment law allows some agencies to exempt and/or defer all or part of the required minimum 20 percent set aside. Agencies that have done so have reported this information in Exhibits B-1 and B-2. Low-Mod Fund data such as total revenues, expenditures, assets, and fund balances, etc. are reported in Exhibits C-1 through C-8. Exhibit D provides information on *Excess Surplus* when agencies accrue and report such information.

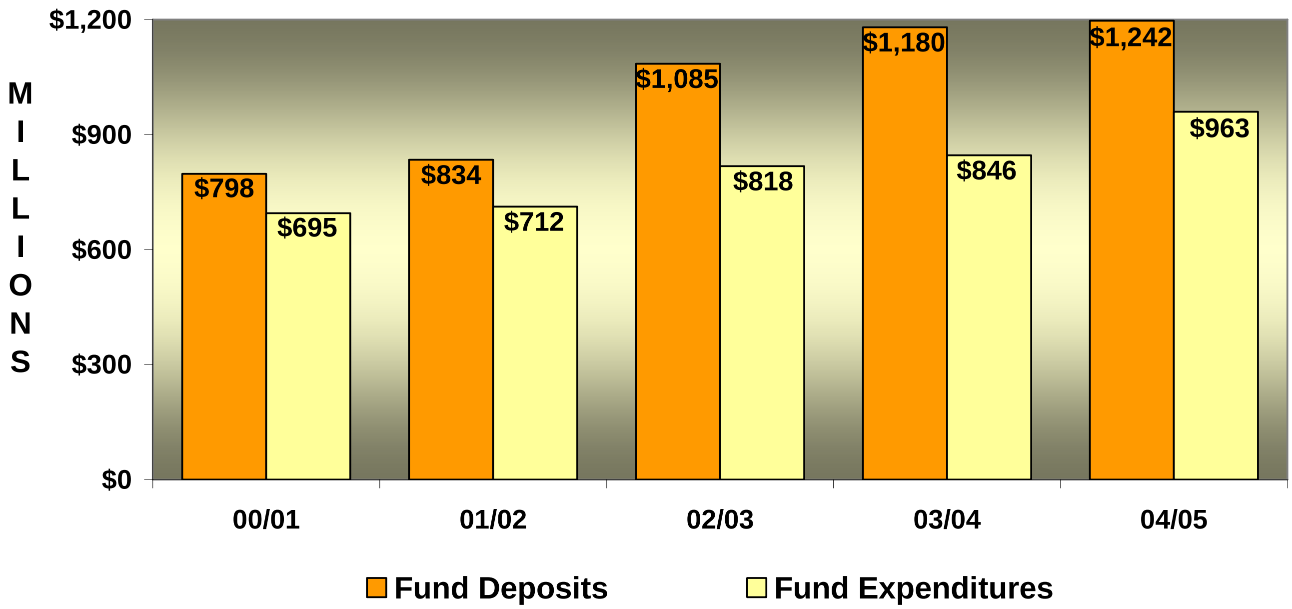
Sources of Housing Funds

Total deposits to the Low-Mod Fund (Exhibit C-1) approximated $1.2 billion, $61.6 million more than the prior year. Deposits consisted of more than $1.1 billion of project area receipts and $111 million of Low-Mod Fund (non-project area) revenues such as bond proceeds and transfer amounts. Sources of project area receipts (Exhibit A-1) consisted of $674 million in property tax increment deposits, $4.5 million in repayments of property tax increment deferred in past years, and $453 million of additional income (Exhibit A-2). Additional income includes $250 million in debt proceeds, $49 million in interest, $56 million from loan repayments, $28 million from sales of real estate, $10 million from rents and leases, $5 million from grants, $200 thousand received in fees for agency administration of bonds, and $55 million reported as other income from various sources not identified above.

Comparison of Deposits to Expenditures

Both deposits and expenditures have consistently risen over the past five years. Increases in deposits have exceeded increases in expenditures except for FY 2004/05, when deposits were only 5 percent higher than last year compared to expenditures which increased by 14 percent. Over this reporting year, agencies spent 78 percent of deposits, increasing the Low-Mod Fund net resources available by $337 million.

Housing Fund: Comparison of Deposits to Expenditures



Property Tax Increment Exemptions and Deferrals

Exemptions: Health & Safety Code Section 33334.2(a) specifies conditions in which agencies are allowed to exempt from depositing to the Low-Mod Fund all or a portion of the required minimum 20 percent set-aside from property tax revenues. Before taking an exemption, the agency's jurisdiction must have adopted a housing element that the Department determined complies with State housing element law. Also, agencies must annually make one of the following findings (that must be consistent with the adopted housing element):

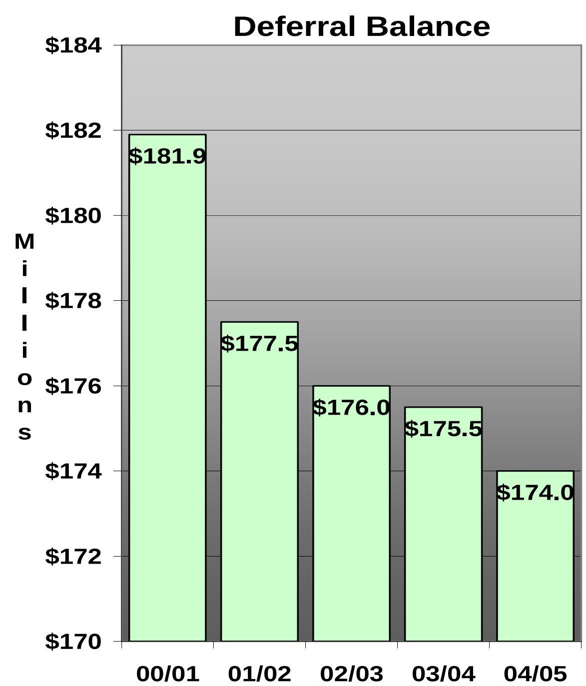
- The community has no need to increase, improve or preserve the supply of affordable housing.
- Less than the required minimum set-aside is sufficient to meet the community's need.
- The community is making a substantial effort to meet its affordable housing need that is equivalent in impact to the funds exempted and the exemption is needed to meet specific existing obligations incurred before May 1991.

Exhibit B-1 shows the following four agencies took exemptions totaling $14.7 million: Brea ($69,467), Industry ($14,484,874), Needles ($37,194), and Paramount ($160,597). FY 2004-2005 exemptions were slightly less than last year's exemptions of $14.9 million. Industry accounts for 98 percent of total exemptions as Government Code Section 65584.3 allows the agency to transfer its entire set aside deposit to the County Housing Authority.

For the current reporting year, three of the four jurisdictions met the requirement of first adopting a compliant housing element before taking an exemption. The City of Needles does not have an adopted housing element in compliance. However, each agency did report a required finding. Redevelopment agencies' exemption findings and resolutions are required to be submitted to the Department. Unlike housing element law though, Department review and compliance certification of information submitted pertaining to exemption findings is not mandated.

Deferrals: Redevelopment law allows agencies, under specified conditions, to defer set asides to the Low-Mod Fund. Deferrals are allowed when funds are needed to repay certain debts specified in redevelopment law. Deferrals of property tax increment reported in Exhibit B-2 constitute a debt to the Low-Mod Fund and agencies are required to develop repayment plans. Deferrals are treated as long-term receivables reported in Exhibit C-2 as *Additional Assets*. Agencies' deferral balance was $174 million at the end of FY 2004/05. Deferrals account for 17 percent of total *Housing Fund Assets* of $1 billion.

For this reporting year, seven agencies deferred $2.8 million whereas 22 agencies repaid $4.5 million in prior year deferrals. The graph on the left shows this year's deferrals of $2.8 million decreased $1 million compared to last year's deferrals of $3.8 million. The graph on the right shows a decrease in the deferral balance.



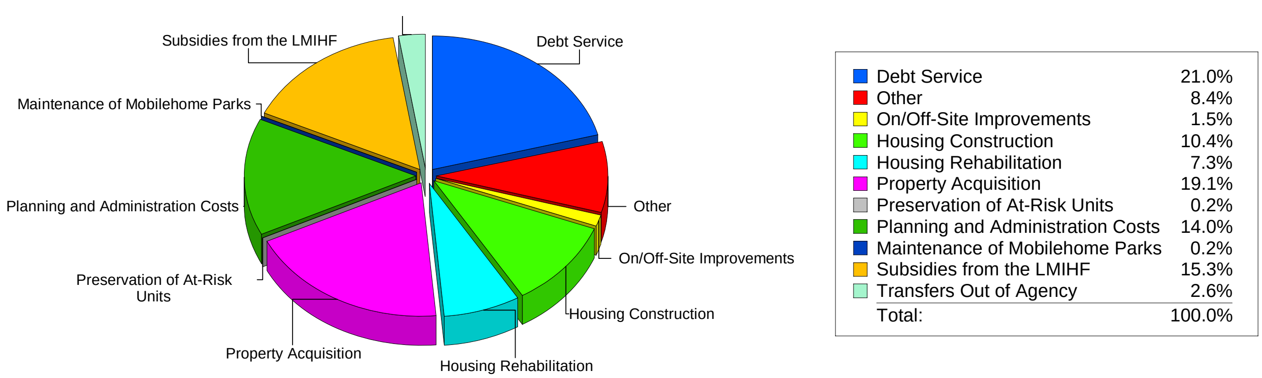
Uses of Housing Funds

This reporting year agencies spent $963 million, an increase of 14 percent in assisting a total of 20,493 households. Agencies report expenditures by categories of expense not by the income levels of households assisted or type of household (elderly/non-elderly).

However, based on information agencies reported, Low-Mod Funds assisted the following households by income category: very-low, 9,078 (53 percent); low, 6,069 (42 percent); and moderate, 1,944 (11 percent). Agencies reported using “other” funds to assist 3,402 units. Of these units, 821 (24 percent) were reported as very-low, 671 (20 percent) low, 50 (1 percent) moderate and 1,860 (55 percent) as above moderate income households.

Housing Fund Expenditures ($963 million) are broken down into several major categories that are displayed below. The four largest expenditure categories are *Debt Service* (21 percent, $202 million, Exhibit C-5) due to agencies depositing a portion of bond proceeds to the Low-Mod Fund, *Property Acquisition* (19 percent, $184 million, Exhibit C-3), *Planning and Administration* (14 percent, $135 million, Exhibit C-7), and *Housing Construction* (10 percent, $100 million, Exhibit C-6). Some categories consist of several related expenditures that agencies report on Schedule C (see Appendix 2). For example, *Property Acquisition* includes several cost components, such as purchases for land and/or structures, relocation expenses, and site clearance and disposal costs, etc.

Fiscal Year 2004-2005 Uses of Housing Funds



Pie Chart by Category for Fiscal Year: 2004/2005

Debt Service	**201,812,950**
Other	**80,696,442**
On/Off-Site Improvements	**14,725,660**
Housing Construction	**100,066,082**
Housing Rehabilitation	**69,954,059**
Property Acquisition	**184,217,608**
Preservation of At-Risk Units	**1,826,419**
Planning and Administration Costs	**134,774,483**
Maintenance of Mobilehome Parks	**1,923,617**
Subsidies from the LMIHF	**147,599,665**
Transfers Out of Agency	**25,259,023**
Total Expenditures:	**962,856,008**

Planning and Administration Costs

Planning and administration costs represent 14 percent of total expenditures, which is similar to other years shown below. Agencies reported spending $135 million, approximately $6 million more than reported in the prior year, representing a slightly less percentage of total expenditures compared to last year.

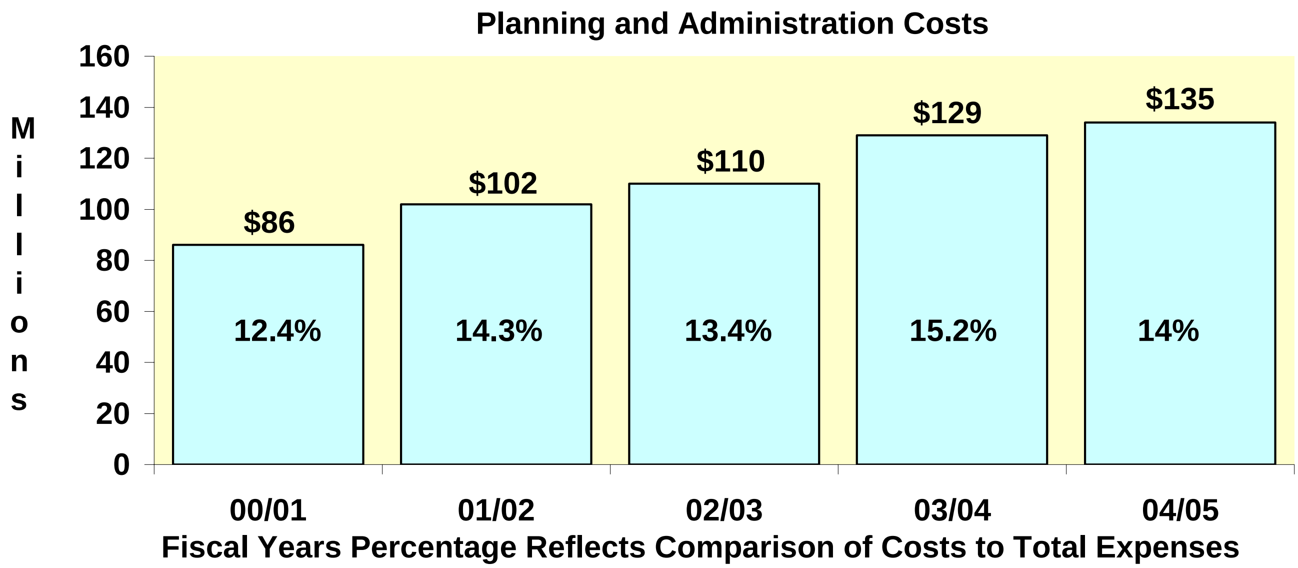


Exhibit C-7 shows amounts agencies spent on such categories as administration; planning; survey and design; and professional services. Exhibit C-8 shows the percentage of total expenditures agencies reported spending on planning and administration. For FY 04/05, Exhibit C-8 shows 20 agencies reported spending 100 percent of total expenditures on planning and administration (15 fewer agencies than last year) and 66 agencies spending between 50 and 100 percent of total expenditures on planning and administration (fourteen more agencies than last year). The chart on the next page identifies agencies that have, over the last four years, consecutively reported planning and administration expenses of 50 percent or more of total expenditures.

Redevelopment law specifies that agencies' planning and administration charges should "not be disproportionate to the amount actually spent" on affordable housing. Agencies are required to make an annual determination that planning and administration charges are "necessary for the production, improvement, or preservation" of affordable housing. Based on several agency audits the Department has conducted since 1998, agencies do not always make the required annual determination and finding that planning and administration charges are not disproportionate.

As there is much variation among agencies, reasons for high planning and administration costs also vary and may include changes in revenue; staff; and, more particularly, the number, size, and development timeframes of projects.

The table below identifies 12 agencies that reported planning and administration costs of more than 50 percent for each of the last four years.

Agencies Reporting Percentages of Planning and Administration Costs Greater Than 50% of Total Expenditures Over Last Four Fiscal Years

REDEVELOPMENT AGENCY	2001-2002	2002-2003	2003-2004	2004/2005
ATASCADERO	100%	100%	100%	100%
BRAWLEY	54%	61%	69%	51%
CARLSBAD	99%	61%	99%	99%
ESCONDIDO	50%	52%	94%	54%
KINGSBURG	100%	100%	100%	100%
MARYSVILLE	50%	83%	100%	100%
MODESTO	100%	100%	100%	100%
MONTEREY PARK	89%	86%	94%	92%
SAN BRUNO	100%	100%	100%	78%
SAN CLEMENTE	86%	100%	83%	100%
TORRANCE	74%	78%	77%	51%
TULARE COUNTY	100%	100%	100%	99%

The table below reports the details of agencies' planning and administration costs reported for FY 2004/2005.

REDEVELOPMENT AGENCY	Admin Cost	Indirect Costs	Other	Planning Survey-Design	Professional Services	Total
ATASCADERO	4,440		<42>		5,000	9,398
BRAWLEY	120,988					120,988
CARLSBAD	91,420				15,602	107,022
ESCONDIDO	1,499,384					1,499,384
KINGSBURG	4,033				1,500	5,533
MARYSVILLE	106,669					106,669
MODESTO	6,815					6,815
MONTEREY PARK	474,158			54,079	23,275	551,512
SAN BRUNO	227,143				101,452	328,595
SAN CLEMENTE	98,632	22,200			28,581	149,413
TORRANCE	441,673		<14,571>			427,102
TULARE COUNTY	341,136			540		341,676

Status of Housing Funds and Assets

Exhibit C-1 shows redevelopment agencies started FY 2004/05 with an *Adjusted Beginning Balance* of $1.7 billion, $392 million more than the prior year. Agencies ended the year reporting $2 billion as *Net Resources Available*, an increase of over $337 million from the previous year. The amount representing *Net Resources Available* is determined by combining the *Adjusted Beginning Balance* ($1.7 billion) with *Project Area Receipts* ($1.1 billion) and *Housing Fund Revenues* ($111 million) and subtracting *Total Expenses* ($963 million).

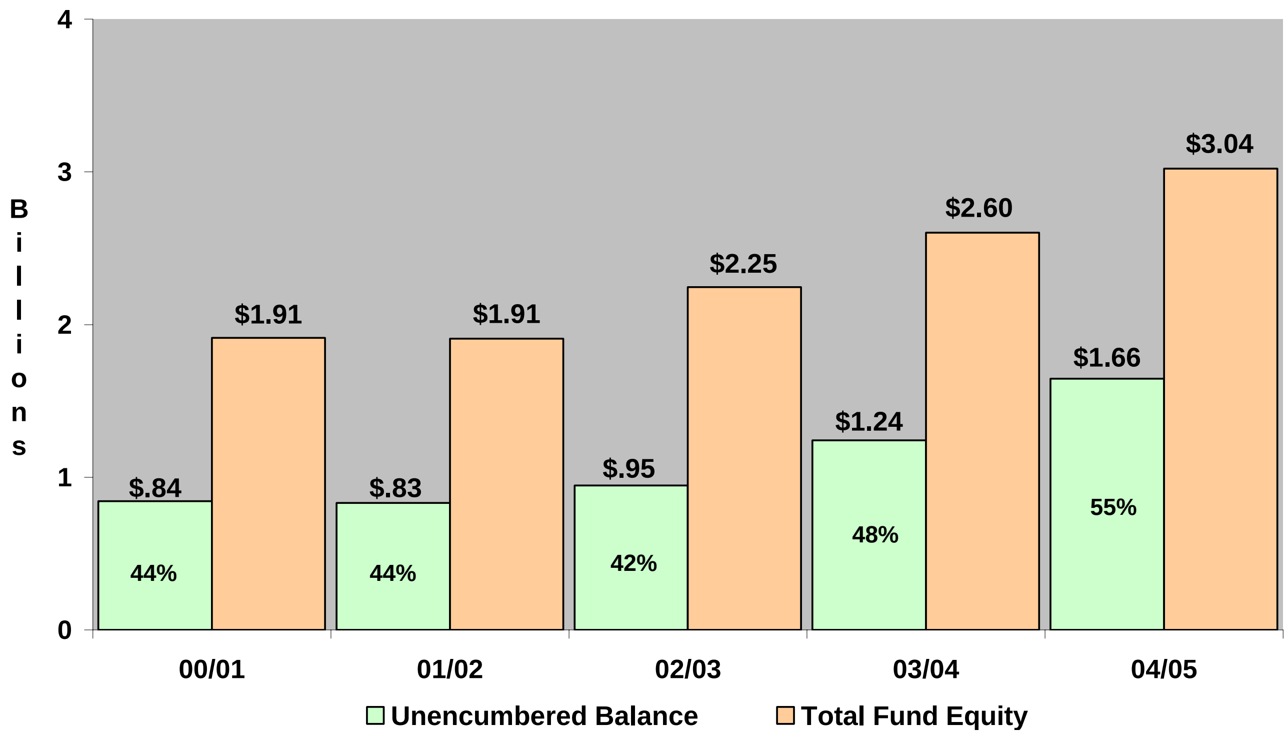
Agencies reported *Total Fund Equity* (net worth) in excess of $3 billion, an increase of more than $438 million compared to last year. *Total Fund Equity* represents the sum of *Net Resources Available* ($2 billion) and *Housing Fund Assets* ($1 billion). *Housing Fund Assets* (Exhibit C-2) consist of the following: (1) receivable loans totaling $534 million made up of housing and residual receipt loans, (2) transfers of $22 million to the *Education Revenue Augmentation Fund*; (3) land holdings of $276 million; (4) accrued deferrals of $174 million; and (5) other assets of $10 million. All *Housing Fund Assets* are considered long-term receivables not immediately available to assist with housing activities.

Funds Available for Future Housing Activities

Of the more than $2 billion agencies reported as *Net Resources Available*, $361 million was reported as encumbrances which are funds agencies have reserved to cover executed agreements and contracts. This leaves $1.7 billion as the *Unencumbered Balance*. From this amount, agencies then report unencumbered funds tentatively designated for specific purposes and undesignated amounts agencies have not yet planned or budgeted for expenditure. At the end of the reporting year, agencies reported designating $599 million for specific activities in the near term. The approximate $1.1 billion remaining represents funds both unencumbered and undesignated that are considered to be currently available to spend on housing activities.

As depicted in the chart on the next page, the Low-Mod Fund's *Unencumbered Balance* comprises 55 percent of *Total Fund Equity*. Compared to FY 2003/04, agencies increased the Low-Mod Fund *Unencumbered Balance* by $403 million (32 percent) and *Total Fund Equity* by $419 million (16 percent). This year's *Unencumbered Balance* percentage of *Total Fund Equity* (55 percent) increased an additional 7 percent from last year. One reason for a high *Unencumbered Balance* may be agencies choosing to save funds over multiple years for future large or difficult affordable housing projects.

Comparison of Total Fund Equity and Unencumbered Balance



This reporting year, 236 redevelopment agencies ended the year with an unencumbered balance over $1 million, whereas only 216 agencies did last year. Of this year's 236 agencies:

- 151 reported an *Unencumbered Balance* between $1 and $5 million;
- 46 reported between $5 and $10 million and
- 39 ended the year with an *Unencumbered Balance* of more than $10 million. The sum of these agencies' *Unencumbered Balance* is over $896 million, 54 percent of the statewide *Unencumbered Balance* of $1.7 billion.

The table below provides additional information about the 25 agencies that reported ending the current reporting year with an *Unencumbered Balance* over $10 million. The table shows each agency's *Unencumbered Balances* for the last three years and identifies the percentage spent of each year's revenue. The data demonstrates that an agency can have a large *Unencumbered Balance* after spending much of the year's revenues and in some cases more than 100 percent of the year's revenue by spending a portion of the balance accrued from prior years' revenues and debt proceeds. For example, Cerritos ended FY 2004/05 with a higher unencumbered balance compared to other years even though the agency spent more than four times the total amount of revenue received.

Agencies With Unencumbered Balance Over $10 Million - Last Three Fiscal Years

	Fiscal Year 2002-2003		Fiscal Year 2003-2004		Fiscal Year 2004-2005	
AGENCIES	Unencumbered Balance (Millions)	Percent of Revenues Spent *	Unencumbered Balance (Millions)	Percent of Revenues Spent *	Unencumbered Balance (Millions)	Percent of Revenues Spent *
BURBANK RDA	$7.3	185%	$14.7	89%	$24.5	80.1%
CERRITOS RDA	$8.7	48%	$12.7	462%	$16.9	22.5%
COMMERCE RDA	$1.3	69%	$14.2	720%	$12.8	142.8%
CORONADO CRA	$11.3	36%	$12.4	216%	$10.3	186.4%
FONTANA RDA	$20.2	57%	$19.6	95%	$19.6	100.4%
FREMONT RDA	$12.8	116%	$15.6	305%	$18.0	267.5%
INGLEWOOD RDA	$21.8	74%	$21.4	95%	$20.8	85.2%
IRWINDALE CRDA	$24.6	326%	$17.2	56%	$16.1	176.2%
LANCASTER RDA	$71.9	3%	$37.2	197%	$60.7	39.2%
LOS ANGELES CITY CRA	$35.3	76%	$64.5	178%	$79.3	79.5%
MILPITAS RDA	$6.6	19%	$18.2	1437%	$22.2	29.5%
NORCO RDA	$5.5	22%	$11.9	568%	$13.1	58.4%
OAKLAND RDA	$4.5	155%	$19.4	127%	$29.9	80.8%
ONTARIO RDA	$8.8	97%	$10.8	63%	$11.4	151.4%
PALM DESERT RDA	$19.6	71%	$26.6	96%	$25.1	80.6%
POMONA RDA	$8.7	92%	$19.5	323%	$19.7	108.6%
RANCHO MIRAGE RDA	$0.0	100%	$35.7	963%	$36.7	84.0%
REDLANDS RDA	$1.6	47%	$10.2	2326%	$10.3	89.8%
S.F. CITY & COUNTY RDA	$40.7	56%	$34.9	99%	$48.7	163.6%
SACRAMENTO CITY/COUNTY	$27.6	58%	$35.2	152%	$30.9	121.8%
SAN MARCOS RDA	$0.0	58%	$18.3	155%	$24.4	45.5%
SANTA CLARA CITY RDA	$16.5	53%	$24.7	258%	$27.1	110.7%
SANTA CRUZ COUNTY RDA	$20.5	115%	$16.9	140%	$19.7	81.5%
WEST COVINA	$16.1	0%	$17.0	129%	$18.9	56.7%
YORBA LINDA RDA	$10.1	228%	$10.0	98%	$12.9	31.2%

** Percentage greater than 100% reflects spending more than current year total revenue by spending a portion of fund balance accrued over prior years*

Excess Surplus

Excess Surplus occurs when the amount of the housing fund's unencumbered balance exceeds the greater of: (1) $1 million or (2) the combined amount of property tax increment revenue deposited to the Low-Mod Fund during the preceding four fiscal years. Agencies are permitted to adjust their *Unencumbered Balance* to exclude from the *Excess Surplus* calculation both the amount of any unspent debt proceeds and the difference between the fair market value and price of land sold.

Since July 1994, redevelopment agencies have been required to determine the existence of *Excess Surplus* on the first day of their fiscal year and include this information in their annual report. To improve the accuracy of determining *Excess Surplus*, redevelopment law was amended (Chapter 442, Statutes of 1999 [AB 634]) to require an agency's independent auditor to calculate and report *Excess Surplus* as part of the agency's annual audit.
The annual audit report is required to be provided to both the State Controller and the Department. A subsequent amendment (Chapter 741, Statutes of 2001 [SB 211]), specifies that before agencies can amend pre-1994 project area plans to extend the time limit to incur additional debt and continue to receive property tax revenue, agencies must ensure *Excess Surplus* has not been accumulated and submit appropriate information to the Department.

Redevelopment law (Section 33334.12) specifies administrative and financial penalties, if agencies do not eliminate *Excess Surplus* funds within prescribed time periods. To avoid penalties, agencies must either: (1) transfer the total amount of *Excess Surplus* to the local housing authority within one year or (2) spend or encumber the remaining *Excess Surplus* within two additional years.

For FY 2004-2005, fifty-two agencies reported having *Excess Surplus* that combined amounts to $70 million, substantially less than the amount of $115 million reported for FY 2003/2004 by the same number of agencies. Although *Excess Surplus* has been reported by agencies in prior years, to date no agencies are known to have incurred a penalty. Below shows nine agencies with *Excess Surplus* for the last five years. As agencies have made past errors in calculating and reporting *Excess Surplus*, the Department will contact these agencies to verify information and that appropriate action has been taken.

Excess Surplus Reported By Agency For 5 Years					
	Excess Surplus FY 00/01	Excess Surplus FY 01/02	Excess Surplus FY 02/03	Excess Surplus FY 03/04	Excess Surplus FY 04-05
ARCADIA	$1,111,199	$1,265,009	$1,425,257	$1,963,415	$640,397
CLAYTON	$387,295	$438,392	$898,029	$999,844	$1,304,350
GRAND TERRACE	$1,342,200	$2,308,829	$359,733	$2,642,155	$1,363,961
INGLEWOOD	$10,752,142	$11,185,291	$9,873,721	$13,081,684	$12,608,232
LAKEWOOD	$741,725	$553,473	$542,616	$721,028	$797,295
MISSION VIEJO CDA	$1,776,275	$2,271,229	$2,332,273	$2,099,959	$1,954,728
SAN BUENAVENTURA	$581,154	$705,938	$267,098	$928,947	$924,226
TORRANCE	$412,740	$377,534	$17,494	$282,618	$525,266
TULARE COUNTY	$599,833	$796,190	$113,350	$657,922	$704,707

HOUSING ACTIVITIES

This section reports the results of agencies' use of funds (Low-Mod Fund and other funds such as grants) for housing activities. Agencies reported assisting a total of 20,493 households, a decrease of more than 15 percent from the previous year.

Redevelopment law restricts agencies' use of the Low-Mod Fund to "increasing, improving, and preserving" the community's supply of low- and moderate-income housing. Pursuant to Section 33080.4, agencies are required to annually report specified information to the Department such as: (1) number of elderly and non-elderly households assisted, (2) the number of very low-, low-, and moderate-income households assisted from the Low-Mod Fund, and (3) the number of above moderate-income households assisted with agencies' other (non Low-Mod Fund) funds, see Exhibits E through Exhibit F.

Exhibits E through M display housing assistance data in a variety of ways such as by county, agency, project area, and program and/or housing project, based on agency responses to the Department's reporting forms (Schedules A-E in Appendix 2). Data on housing activities that directly assisted eligible households, such as the number of rent subsidies or units constructed or rehabilitated, etc. are reported in Exhibits E through F. Exhibit G identifies the increased inclusionary obligations for future additional affordable units within project areas. These obligations are based on the number of newly constructed units and/or substantially rehabilitated units that were developed in project areas over the reporting year. Exhibit H and Exhibit I report data on households displaced and dwelling units destroyed or removed.

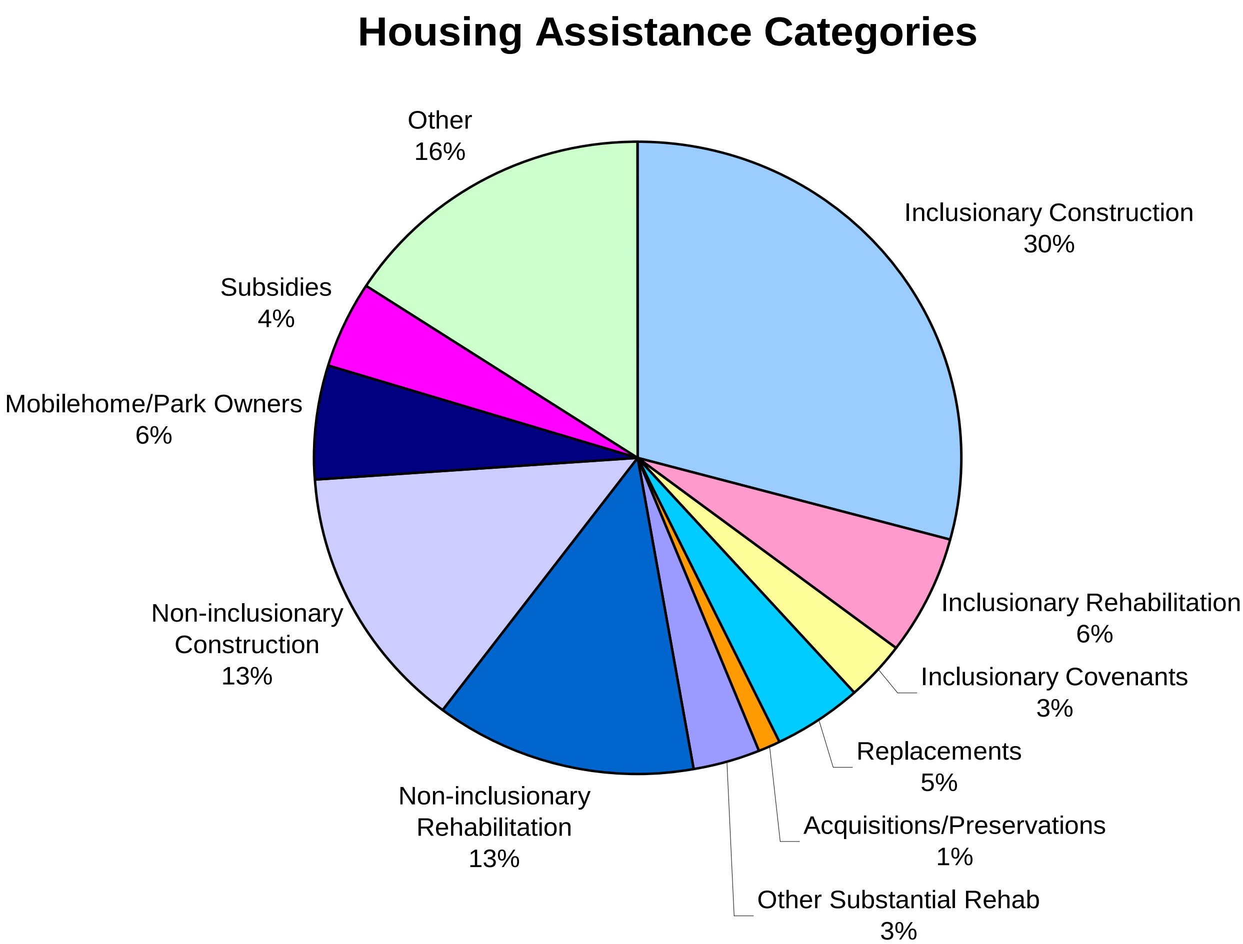
Exhibits J through M report *Other Housing Activities* that have an indirect or future impact on agencies' housing assistance efforts such as expenditures made for on- and off-site improvements, housing estimated to occur over the next two years, land holdings, and use of agency funds for a homeownership bond program to match certain federal funds.

Types of Households Assisted

Exhibit F-1 shows redevelopment agencies reported assisting 7,185 elderly and 13,308 non-elderly households. Exhibit F-4 describes the following households/units assisted, by income category, using the Low-Mod Fund: 9,078 very low, 6,069 low and 1,944 moderate. Using "other funds" agencies reported assisting, by income category, the following households/units: 821 very low, 671 low, 50 moderate and 1,860 above moderate.

Kinds of Housing Activities

Housing assistance activities vary from agency to agency to address the different needs within communities and project areas. Agencies report statutorily required information on Department forms (Schedules A-E at Appendix 2). Information reported on housing assistance activities ranges from developing more affordable units to subsidizing housing costs and/or providing grants to very low, low and moderate-income homeowners to help with repairs. The chart below shows all reported housing assistance activities for FY 2004/05.



Certain housing activities trigger the replacement and inclusionary requirements of Health and Safety Code Section 33413. This section of law requires agencies to ensure, within a specified timeframe, that additional units are affordable to eligible households either because affordable units were destroyed or additional units were constructed or substantially rehabilitated within project areas. Before the law was amended by AB 1290 (Chapter 942, Statutes of 1994), the types of housing meeting the replacement requirements of Section 33413(a) and the inclusionary requirements of Section 33413(b) consisted of new construction and rehabilitation. Since 1994, inclusionary requirements can be met by new construction and substantial rehabilitation housing activities and, up to 50 percent, by acquisition of affordability covenants.

Number of Households Assisted by Activity

As stated previously, redevelopment agencies statewide assisted 20,493 households this reporting year versus 24,204 households last year. The table on the next page reports the number of households assisted by housing activity. Activities are categorized according to whether the assistance met the replacement and/or inclusionary requirements of Section 33413 or whether the activity represents other housing assistance. Also reflected is whether the assistance was provided by the Low-Mod Fund or other agency funds.

FISCAL YEAR 2004-2005 Total Housing Activities and Households Assisted

Section 33413 Requirement	Activity: Low-Mod Fund	Activity: Other Funds	Total Section 33413	Other Housing Assistance	Activity: Low-Mod Fund	Activity: Other Funds	Total Other Housing	TOTAL Households (All Funds)
INCLUSIONARY	**7,815**	**0**	**7,815**	Other Assistance	2,970	306	**3,276**	
Construction	5,951	0	5,951	Other Construction	721	2,049	**2,770**	
Rehabilitation Pre 94	72	0	72	Other Rehab	2,244	415	**2,659**	
Subst Rehab Post 93	1,185	0	1,185	Other Subst Rehab	600	94	**694**	
Acquire Covenant	607	0	607	Acquired / Preserved *	212	24	**236**	
REPLACEMENT	**937**	**0**	**937**	Manufactured / Mblhomes & Parks *	786	422	**1,208**	
				Subsidy	806	92	**898**	
Total	**8,752**	**0**	**8,752**	**Total**	**8,339**	**3,402**	**11,741**	**20,493**

For detailed information identifying agencies (by county, agency, and project area) and the kinds of housing assistance provided to households based on level of income, refer to Exhibits E-1 through E-12. Exhibits F-1 through F-4 summarizes Exhibit E data in different ways. For example, Exhibit F-1 summarizes which agencies engaged in various activities and identifies the number of households assisted, by income category, according to activity, county of residence, and whether assistance was provided to an elderly or non-elderly household. Exhibit F-2 categorizes housing activities by area (inside or outside of project areas), and whether the activity was reported as agency or non-agency assisted. Activities in Exhibit F-3 reflect those that agencies reported as other assistance or that met a Section 33413 replacement or inclusionary requirement in which agencies are required to ensure units remain affordable for at least 45 years for owner-occupied units or 55 years for renter-occupied units. Exhibit F-4 sorts activities based on agencies' use of the Low-Mod Fund or other funds.

Section 33413 Inclusionary Activities

Inclusionary activities refer to housing units with long-term affordability restrictions that agencies control for sufficient years (at least 45 pursuant to amendments made in 2001) to meet the requirements of Health and Safety Code Section 33413(b). The requirements of this section are commonly referred to as either the inclusionary or production requirements because agencies must ensure a specified percentage of project area housing units are affordable. Section 33413(b) applies to housing that is constructed or substantially rehabilitated within project areas. Agencies are required, within ten years, to ensure a specific percentage of units are provided as affordable to low- and moderate-income households and to ensure such units remain affordable for the longest feasible time, but not less than 45 years for owner-occupied units or 55 years for rentals.

For dwelling units that agencies develop, the inclusionary requirement is 30 percent, of which at least half must be affordable to very low-income households. For non-agency developed dwelling units, the inclusionary requirement is 15 percent of which at least 40 percent must be affordable to very low-income households. Agencies can count the following activities to fulfill their inclusionary obligation: units constructed, units substantially rehabilitated, and multifamily units in which agencies have acquired long-term affordability covenants.

Prior to 1994, any kind of rehabilitation activity within project areas increased agencies' inclusionary obligation to provide more affordable units within 10 years. Chapter 942, Statutes of 1993 (AB 1290) specifies that rehabilitation must be substantial, which is defined as an increase of at least 25 percent in the value of the property after rehabilitation, including the value of land.

A "2-for-1" inclusionary provision was also introduced by AB 1290. This provision allows agencies to meet their "project area" inclusionary housing obligation by producing two affordable units outside the project area for every inclusionary unit required inside the project area.

Inclusionary New Construction

Exhibit F-3 shows agencies reported 5,951 newly constructed units as meeting Section 33413 provisions, 23 percent less than last year's 7,721. Most inclusionary new construction was reported as non-agency developed (4,163) versus agency developed (1,788). New construction assistance from the Low-Mod Fund benefited owner and renter households among the following income levels: 3,015 very low (51 percent), 2,207 low (37 percent), and 729 moderate (12 percent). Most inclusionary construction was inside project areas (3,666 units) rather than outside project areas (2,285 units).

Inclusionary Rehabilitation—Pre-1994

Agencies reported 72 substantially rehabilitated housing units as inclusionary, slightly above the 59 reported last year (Exhibit F-3). Low-Mod Funds were used to assist the following households: 61 very low-, 10 low-, and 1 moderate-income. All rehabilitated units (72) were reported as non-agency developed with most (62) being within project areas versus10 outside of project areas.

Inclusionary Substantial Rehabilitation—Post-1993

Activity reported as Substantial Rehabilitation in Exhibit F-3 more than doubled as agencies reported using the Low-Mod Fund to assist 1,185 households versus 516 in the prior year. By income category, assisted households included: 525 very-low, 513 low, and 147 moderate. Agency developed units were reported as 284 and non-agency developed units were 901. A slightly greater number of units (754 or 64 percent) were assisted outside project areas.

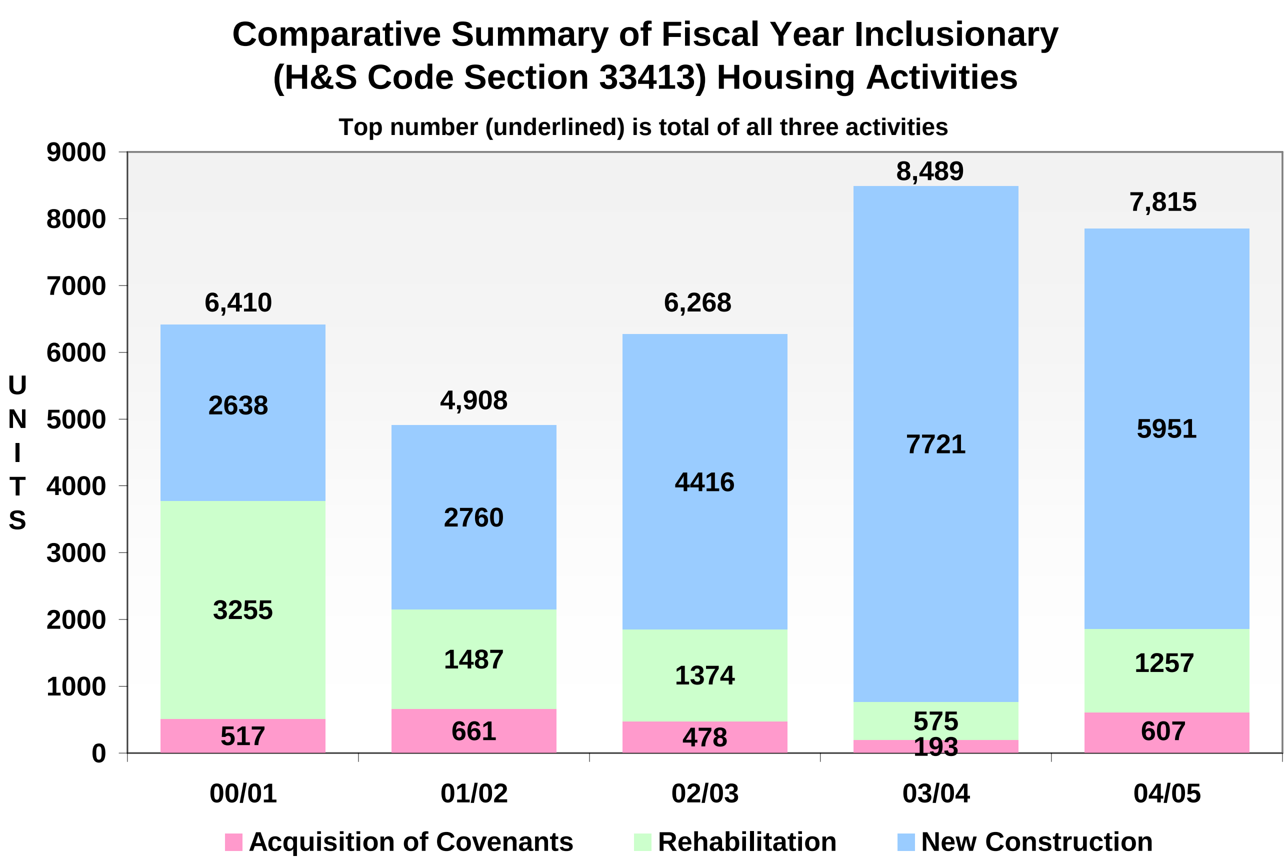
Inclusionary Acquisition of Affordability Covenants

Agencies can meet up to 50 percent of their inclusionary obligation by purchasing covenants on multifamily units that are not currently affordable or are not expected to remain affordable

and restricting the rents to affordable levels. During FY 2004/2005, agencies reported assisting 607 households, considerably more than the 193 reported last year. Households, by income level, represented 200 very low and 404 low and 3 moderate. Affordability covenants purchased within project areas benefited 26 households whereas 581 were assisted outside of project areas.

Summary of All Inclusionary Housing Activities

The chart below profiles five years of inclusionary housing activities assisted with Low-Mod Funds and reflects units that have long-term affordability restrictions complying with inclusionary requirements. Yearly fluctuations reflect the moving time periods (10 years) in which agencies are required to fulfill the inclusionary or production obligation incurred over a particular year (e.g. an obligation incurred in 1994 may have been met in 1995 or 2004).



Increase in Inclusionary Obligation

For FY 2004/05, Exhibit G reports agencies increased their inclusionary obligation and must ensure, within the next ten years, an additional 1,467 units remain affordable. Agencies' increased inclusionary obligations resulted from project area new construction (7,335) consisting of 1,779 agency developed new units and 5,556 non-agency developed new units and substantial rehabilitation (633) consisting of 31 reported as agency developed and 602 reported as non-agency developed. Inclusionary obligations incurred this year (1,479 units) are considerably below last year's (2,723 units).

Section 33413 Replacement Housing Activities

Exhibit F-3 shows agencies reported 937 dwelling units toward meeting their replacement Section 33413(a) obligations. In the prior year, 1,701 replacement units were reported. Replacement obligations are required to be met within four years of removing dwelling units affordable to low- or moderate-income households from the housing stock. In addition, agencies must ensure replacement units provide at least as many bedrooms as were included in the units removed and that replacement units be comparable in affordability to units removed. Agencies reported meeting part of their replacement requirements from new construction (644) and pre and post 1994 substantial rehabilitation (293) activities. Agencies developed 261 units whereas non-agency entities developed 676 of all replacement units.

Agency developed replacement units within project areas totaled 213 compared to 48 outside of project areas. For non-agency developed replacements units, 386 were within project areas and 290 were outside of project areas.

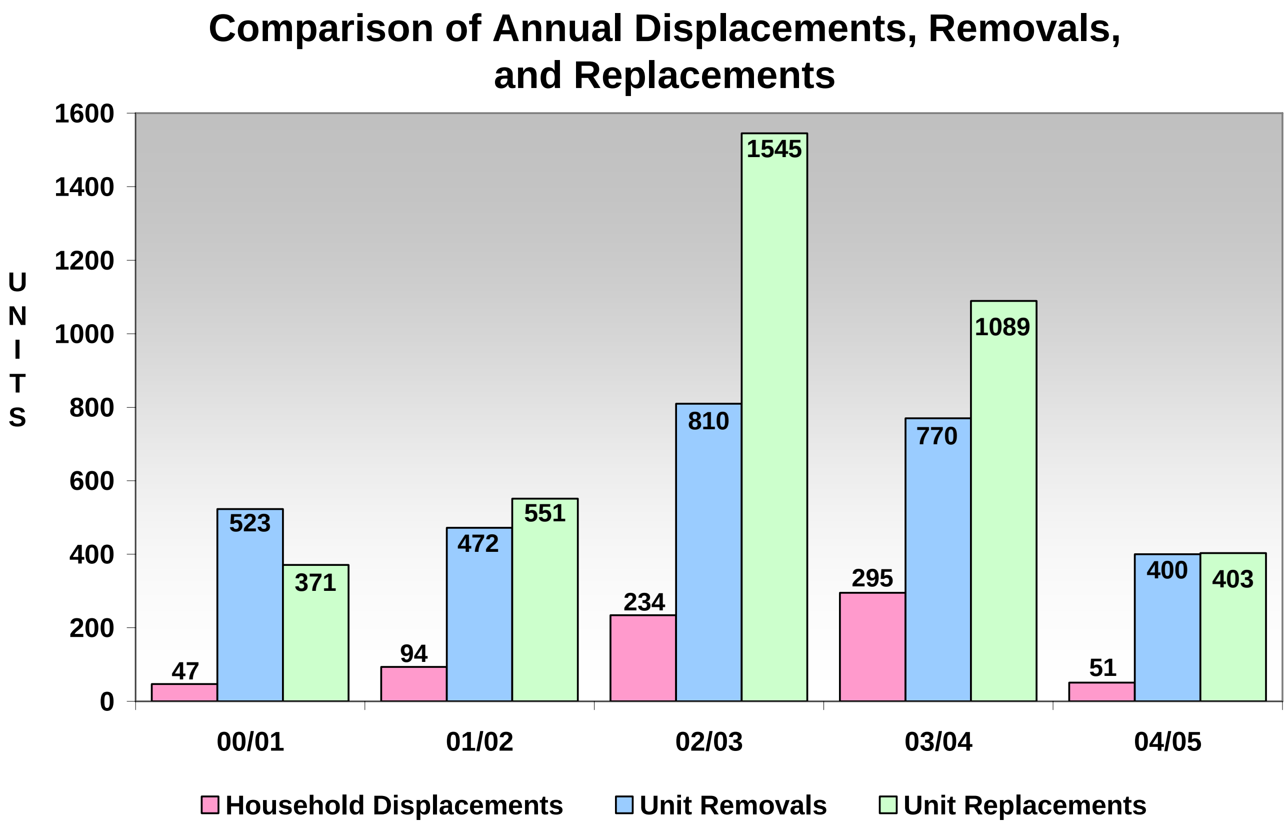
Housing Units Removed and Households Displaced

As cited in Health and Safety Code Section 33413(a), whenever dwelling units housing persons and families of low- or moderate-income are destroyed or removed from the low- and moderate-income housing stock as part of a redevelopment project, the agency must replace these units within four years. An agency may replace destroyed or removed dwelling units with a fewer number of replacement dwelling units providing the number of bedrooms among all replacement dwelling units equal or exceed the total number of bedrooms of all destroyed or removed units.

Exhibit H-1 reports 400 affordable units were removed within project areas and Exhibit H-2 shows agencies must replace, within four years, all these units and ensure that replacement units provide at least 628 bedrooms. Dwelling units destroyed included 32 occupied by elderly households and 368 occupied by non-elderly households.

As for households displaced over the reporting year (Exhibit I-1), agencies reported 7 as elderly and 44 as non-elderly households. Exhibit I-2 provides agency displacement estimates for the next reporting year indicating agencies anticipate displacing 695 households (82 elderly and 613 non-elderly). Prior to displacing households, agencies are required to develop relocation and replacement housing plans pursuant to Section 33411.

The chart below shows agencies' displacement, removal, and replacement activities over the last five years.



Other Housing Assistance Activities

Assistance identified in these exhibits excludes inclusionary and replacement activities and involves assisting households with the Low-Mod Fund and/or other funds such as federal and State grants and optional amounts from agencies' other funds such as from 80 percent of property tax increment not required to be set-aside for affordable housing purposes. Since agencies can use funds other than the Low-Mod Fund to assist households, some activities reported in Exhibit E through Exhibit F identify above moderate-income households. The new construction and substantial rehabilitation reported as "other" activities represent units agencies did not claim for inclusionary credit, most likely because such units lacked adequate affordability restrictions.

Agencies reported providing many other (non-inclusionary or non-replacement) kinds of assistance to 11,741 households. Most (8,339) were assisted with the Low-Mod Fund. Exhibit F-4 shows agencies used other funds (not the Low-Mod Fund) for some new construction to assist a total of 2,049 households of which 1,735 were above moderate-income households.

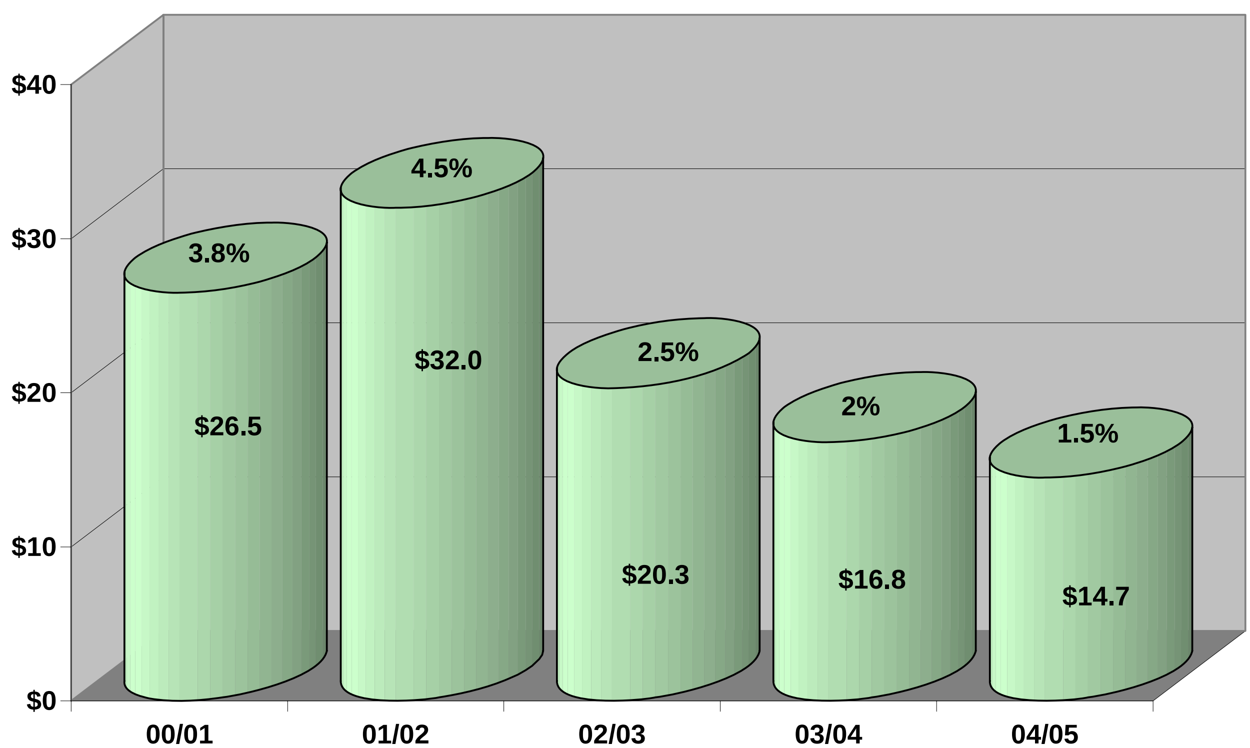
Other reported kinds of activities (funded by a combination of funding sources) and the number of households benefiting were: construction (2,770); substantial rehabilitation (694); rehabilitation (2,659); dwelling unit acquisitions (175); preservation of affordable units including subsidized units at-risk of conversion to market-rate rents (61); manufactured home or mobilehome residents (746) and manufactured home or mobilehome residents who are park owners (462); providing subsidies (898) such as for monthly rent; and miscellaneous other 3,276) such as providing small grants to assist owners with repairs.

On- and Off-site Improvements

Redevelopment law allows agencies to use the Low-Mod Fund for site improvements when such improvements directly benefit housing units affordable to low- and moderate-income households. Improvements must be part of a program to benefit affordable housing units or be determined by the agency as necessary to eliminate a condition jeopardizing the health or safety of persons occupying restricted affordable housing units. An example of spending Low-Mod Funds to remedy a health or safety issue would be the removal of contaminated soil near a subsidized affordable housing project.

Fiscal Year 2004/2005, expenditures for site improvements have fluctuated, as they have for the past five years, ranged between 1.5 percent to 4.5 percent of agencies' total expenditures. This year, Exhibit C-6 shows agencies reported spending $14.7 million ($2.1 million less than last year) for site improvements benefiting 1,686 affordable housing units. Improvements were reported as benefiting 802 new units and 404 rehabilitated units and eliminating a health or safety hazard impacting 480 units.

On/Offsite Improvements
Costs and Percentage of Total Expenditures



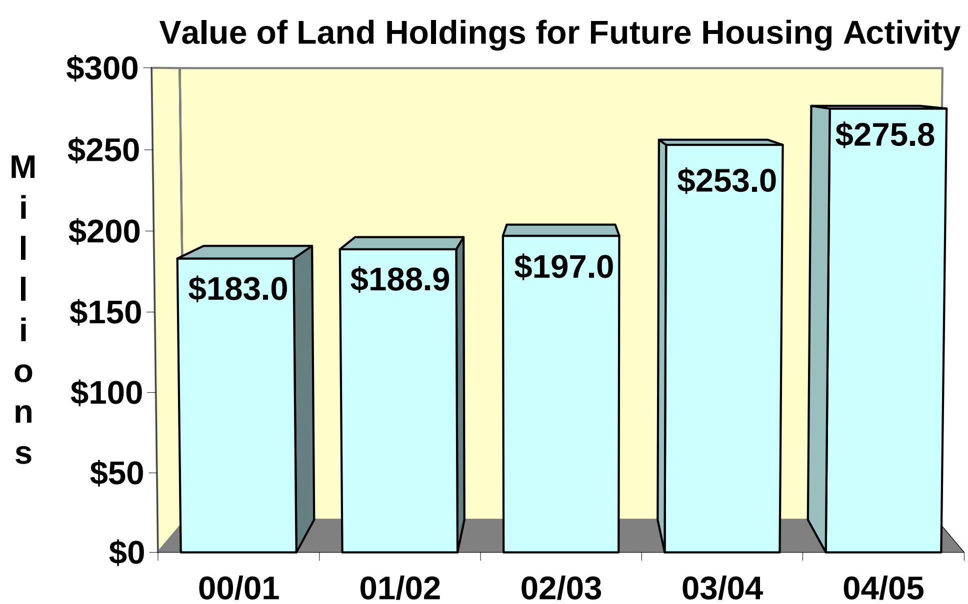
Future Construction

Exhibit K-1 identifies agencies' estimates of affordable units anticipated to be completed over the next two fiscal years based on executed development agreements and contracts. The financial obligations attached to these contracts are reflected as part of encumbered dollars. A total of 16,267 units are estimated to be developed to accommodate 7,829 very low-income households, 6,063 low-income households, and 2,375 moderate-income households. As reported in Exhibit K-2, agencies expect most construction over the next two years to occur inside project areas (10,566) as opposed to outside of project areas (5,701). Last year, agencies projected similar total activity (19,945), with 65 percent estimated to occur inside versus outside of project areas.

Land Holdings

Exhibit L contains information reported by 107 agencies regarding specific sites, acreage, zoning, dates of acquisition, and estimated dates when affordable housing projects may begin. Land being held for future affordable housing projects total 410 sites approximating 932 acres (last year, 488 sites encompassed 1,082 acres). Agencies also reported values of land holdings as an additional asset (refer to Exhibit C-2). The values of land holdings over the last five years are shown below.

Redevelopment law, Health and Safety Code Section 33334.16, requires agencies to initiate development activities within five years of land acquisition; however, agencies are permitted one five-year extension. Land not developed within the required time period must be sold, with agencies depositing the proceeds in the Low-Mod Fund. Chapter 362, Statutes of 1999, (SB 497) amended the law to require agencies' independent auditors to determine agency compliance. Auditors are required to provide their findings to the State Controller (SCO) to follow-up and resolve findings of major violations, such as failure to develop or dispose of land. The SCO, by June 1, is required to report unresolved major violations to the Attorney General (AG) for action. The SCO's Fiscal Year 2004/2005 report indicates, from auditor findings, that six agencies failed to timely initiate development and/or dispose of land holdings.



Miscellaneous Plans and Information

To assist homebuyers, including persons and families with an above moderate-income, redevelopment law allows agencies to contribute other funds (non Low-Mod Funds) and also spend Low-Mod Funds to assist above moderate-income homebuyers, but only when agencies comply with other specific requirements. This year, 17 agencies reported spending some Low-Mod Funds to assist above moderate-income homebuyers, pursuant to Section 33334.13. This section requires agencies, within two years of assisting above moderate-income persons, to expend twice the total sum of assistance to exclusively increase and improve the supply of affordable housing to lower-income households. In addition, at least 50 percent of these required expenditures must benefit very low-income households.

Ten agencies reported using other funds (non Low-Mod Funds) pursuant to Section 50836(b) to assist homebuyers. Agency assistance was provided to support the federal HOME affordable housing grant program and participate in funding projects that receive federal funding, pursuant to either Title II or IV of the Cranston-Gonzolez National Affordable Housing Act.